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SELECTION OF LEGAL ENTITY ----- OVERVIEW OF CHOICES

Your business has not yet started up. Thus, you still have an opportunity to select the most favorable type of legal entity for your business when it comes into being.

The following outline and summary will give you a fairly detailed overview of which type of entity is likely to be best for your particular business.

Choosing the "best" legal form or entity for your business is rarely an easy decision to make. Each form of business, sole proprietorship, partnership, and corporation, has its own benefits and shortcomings; which vary in degree depending on the kind and size of your business, your tax situation, profitability, personal predilections, and numerous other factors. Thus there is often no "right" answer as to which legal entity you should select for operating your business.

The following is an overview of some of the major advantages and disadvantages of sole proprietorships, partnerships, and corporations. Where there are differences between a general partnership and a limited partnership or between a regular corporation ("C") and an S corporation, separate comments are shown for each. Otherwise, the comments regarding partnerships apply to both general and limited partnerships, and the comments regarding corporations relate to both regular and S corporations. Because your state, along with 35 others, has adopted a new kind of legal entity called a "Limited Liability Company," which is much like a partnership but with limited liability for all its owners, the following discussion also includes consideration of such "LLCs" in the state of North Carolina.

As a general rule, it seems that some types of businesses are much more likely than others to benefit from adopting a certain legal form, as in the case of the following:

- Professional service firms (law, accounting, etc.);
- Capital-intensive firms needing to accumulate capital;
- Real estate rental businesses, in general; and
- Authors, inventors and software developers receiving royalty income for licensing intellectual property.

SIMPLICITY IN OPERATION AND FORMATION:

Proprietorship:

Simplest to establish and operate.

General Partnership:

Relatively simple, informal, but is usually desirable to have a formal written agreement between the partners.

Limited Partnership:

More complex and expensive than other unincorporated forms of business to establish. Requires written agreement, filing of certificate. Managed by general partners only.

Limited Liability Company:

A new type of entity, which your lawyer may not yet be very familiar with. Requires written articles of organization, roughly comparable to a corporation or a limited partnership in terms of complexity in formation. Can be formed under the state laws of North Carolina.

Regular Corporation:

Requires most formality in establishment and operation, generally.

S Corporation:

Same as regular corporation, but requires close supervision by a tax advisor, an additional cost.

LIABILITY FOR DEBTS, TAXES AND OTHER CLAIMS:

Proprietorship:

Owner has unlimited personal liability.

General Partnership:

Partners all have unlimited personal liability.

Limited Partnership:

General partners are personally liable; limited partners are liable only to the extent of their investment, generally.

Limited Liability Company:

"Members" (owners) are not generally liable for the company's debts under the state laws of North Carolina, but may have to guarantee loans, as a practical matter, if the company is to be able to borrow money. Also, corporate officers may be liable for failure to withhold and pay over to the IRS withholding taxes on employees' wages.

Corporation:

Stockholders are not generally liable for corporation debts, but often have to guarantee loans, as a practical matter, if the corporation is to borrow money. Also, corporate officers may be liable for failure to withhold and pay over to the IRS withholding taxes on employees' wages.

FEDERAL INCOME TAXATION OF BUSINESS PROFITS:

Proprietorship:

Taxed to owner at individual tax rates of up to 31% or more in 1992, or up to 39.6% in 1993.

Partnership:

Taxed to partners at their individual tax rates.

Limited Liability Company:

Taxed to owners at their individual tax rates if organized so as to be taxed as a partnership for federal income tax purposes.

Regular Corporation:

Taxed to corporation at rates up to 34%, generally (marginal rate is 39% at income levels of between \$100,000 and \$335,000; rate rises to 35% above \$10 million of taxable income) in 1993.

S Corporation:

Taxed to individual owners at their individual rates (but certain gains are taxable to the corporation as well).

DOUBLE TAXATION IF PROFITS ARE WITHDRAWN FROM THE BUSINESS:

Proprietorship:

No.

Partnership:

No.

Limited Liability Company:

No, generally, if treated for tax purposes as a partnership.

Regular Corporation:

Yes, (But major exception exists for reasonable compensation that is paid to owners who are employees of the corporation.)

S Corporation:

No, in general.

DEDUCTION OF LOSSES BY OWNERS:

Proprietorship:

Yes.

Partnership:

Yes. Limited partner's deductions generally cannot exceed the amount he or she has invested in a limited partnership interest (except for real estate, in some instances).

Limited Liability Company:

Yes, generally, if treated as a partnership for tax purposes. Tax treatment is not totally resolved yet, but may actually have some advantages over limited partnerships for holding real estate.

Regular Corporation:

No. Corporation must carry over any initial losses until able to offset them against future profits, if ever.

S Corporation:

Yes, in general, for federal tax purposes. Loss for a shareholder is limited to investment in his or her stock, plus amount loaned to corporation.

SOCIAL SECURITY TAXES ON EARNINGS OF OWNER FROM THE BUSINESS:

Proprietorship:

15.3% of owner's self-employment (S/E) earnings in 1993, up to \$57,600 of income, plus 2.9% of S/E income over \$57,600, to \$135,000. (ALL S/E earnings are subject to the 2.9% tax in 1994 and subsequent years.) One-half of the S/E tax is deductible for federal income tax purposes.

Partnership:

15.3% of each partner's share of self-employment earnings from the business in 1993, on up to \$57,600 of such earnings, plus 2.9% on excess over \$57,600 (up to maximum S/E income of \$135,000 in 1993; no such maximum limit after 1993).

Limited Liability Company:

Same as partnership, if LLC is organized in such a way as to be recognized as a partnership for tax purposes.

Corporation:

Owner/employee of corporation pays 7.65% on his or her salary and corporation also pays 7.65%. Total Social Security (FICA) tax is 15.3% of up to \$57,600 of salary in 1993 (plus 2.9% on excess over \$57,600, up to maximum S/E income of \$135,000 in 1993). (The \$135,000 limit no longer applies, starting in 1994.)

UNEMPLOYMENT TAXES ON EARNINGS OF OWNER FROM THE BUSINESS:

Proprietorship:

None.

Partnership:

None.

Limited Liability Company:

None, if treated as partnership.

Corporation:

Yes. Unemployment taxes (state and federal) apply to salaries paid to owners.

RETIREMENT PLANS:

Proprietorship:

Keogh plan. Deductions, other features now generally the same as for corporate pension and profit sharing plans. But a participant who is owner cannot borrow from a Keogh plan.

Partnership:

Keogh plan. Same as for sole proprietorship.

LIMITED LIABILITY COMPANIES -- A NEW FOURTH CHOICE

The age-old choice of entity in starting a business has always been a threefold one (except for such oddities as the "Massachusetts business trust"): sole proprietorship, partnership, or corporation. But now there is a new kind of business entity, which has recently arrived on the scene: the "limited liability company." A growing number of state legislatures around the U.S. have enacted laws in recent years that permit the formation of these new legal entities. North Carolina is one of the states that has enacted an "LLC" law.

Unfortunately, the tax benefits that result from operating as an LLC have already gotten the attention of Congress, and a tax-writing committee is said to be looking into the possibility of taking away the favorable tax treatment of LLCs, by making them taxable as corporations. So be forewarned that the tax benefits of organizing as an LLC may be taken away by Congress someday.

What, you may wonder, is this new entity?

- Is it a corporation? No, not exactly.
- Is it a partnership? Yes, sort of.
- Is it a sole proprietorship? No, not quite.

This new entity, which closely resemble (and are usually taxed as) partnerships, offer limited liability like corporations. While it has long been possible for a partnership to offer limited liability to the Limited partners, a limited partnership must always have at least one General partner who is fully liable for the debts of the business.

The new "limited liability companies" have, in effect, done away with the need to have unlimited liability for any of the owners of what is, essentially, a partnership form of business organization.

In 1988, Revenue Ruling 88-76, the IRS concluded that a Wyoming limited liability company could be classified as a partnership for Federal income tax purposes (which is favorable, from the taxpayer's standpoint, in many cases), based on the following rationale:

- No member has any personal liability for debts of the company; therefore the company has limited liability. (Like a corporation)
- The interests of the members are assignable only upon written consent of all of the remaining members. (Like a partnership; however, the Ruling recognized that mere assignees are entitled to receive profits and other compensation.)
- The company is dissolved in situations, which are very similar to the dissolution of a limited partnership. (Like a partnership)
- The company has centralized management. (Like a corporation)

Under IRS criteria, any entity that has no more than two of the four above features of a corporation is not considered to be a corporation. Because of the absence of "continuity of life" and "free transferability" of interests in the LLC entity, the Wyoming limited liability company was held to be a partnership for tax purposes.

WARNING: Merely hiring an attorney to set up an LLC will not, in many cases, guarantee that your LLC will be taxed as a partnership rather than as a corporation. Accordingly, if you set up an LLC in any state, make sure you have a good tax adviser who can review the organization papers to ensure that the LLC is organized in a manner that meets IRS requirements for taxability as a partnership. Otherwise, the attorney who draws up the papers, if not sophisticated in tax matters, may unwittingly create an LLC that has too many corporate characteristics so that it will be taxable as a corporation totally defeating your main intended purpose for creating an LLC.

Additionally, in 1990, Colorado enacted legal provisions that permit the formation of "limited liability companies". For state tax purposes, these LLC's are not subject to income tax and are to be treated as partnerships but which have limited liability.

The Colorado limited liability companies would also appear to meet the IRS tests for taxability as a partnership.

BUSINESS PLAN OUTLINE

FOR: ORIENTATION

(Delete this line and insert title, company, etc.)

A. EXECUTIVE SUMMARY.

[This should be an overview and lead-in to the rest of the business plan. It should emphasize your competence in three key areas: marketing, technical capabilities, and financial management.]

(1) **Description of Proposed Business.**

[Describe below your product or service. Where possible, supplement with diagrams, illustrations or pictures in the final package you show to prospective lenders or investors. Insert as many extra lines as needed. Delete these instructions.]

(2) **Marketing Approach.**

[Provide a brief description of the market segment you will be trying to reach. Then outline the channel(s) you will use to reach this market, such as direct mail, retail, or wholesale distributors.]

(3) **Projected financial Performance.**

[Give your estimated dollar amount of sales and net profits that you project for each of the first 3 to 5 years of operating, then set forth the amount of starting capital you will need. Where cash flow is negative (as is usual) in the first few years, it may be helpful to show your net cash "exposure" or cumulative negative cash flow for each month or quarter to show that your initial starting capital will be more than sufficient to cover such maximum exposure.]

B. STATEMENT OF OBJECTIVES.

[In this part, you need to do a selling job on the prospective investor, discussing the unique advantages your product or service has over existing products and services. State both your short-term and long-term business objectives for the business, and describe the image you want to create for your product or firm.]

C. QUALIFICATIONS OF PRINCIPALS.

[Describe in this section your background qualifications to run this particular business, citing education, overall business experience and particularly any successful experience in a closely-related type of business operation. Also describe, if applicable, the qualifications of your partners or other co-owners who will be part of the management (or board of directors, in the case of a corporation) of your proposed business.]

D. DESCRIPTION OF PRODUCT.

D. DESCRIPTION OF SERVICES TO BE OFFERED.

[Delete one of the above headings.]

[Provide a complete technical description of the product or service to be offered, in considerable technical detail, including a summary of any test data if any sort of testing work has been done, or describe any tests that are currently planned. Also, show that you are already anticipating the future by outlining any further refinements or logical next steps for developing an improved or different product later (or comparable plans for further innovations in a service business). This is your chance to show that you really have something that is a better mousetrap and is also technically feasible.]

E. BACKGROUND OF PROPOSED BUSINESS.

[Spell out here the background conditions in the business in question, including how, where and when the product is being used, as well as where trends in the business or industry seem to be leading. Also discuss who the main players (i.e., your competitors) are, or are likely to be, in the case of a fledgling industry. Then explain where your business will fit into this picture. Will you be on the cutting edge of what is happening, or just one of the pack that is not in the same league as the leaders? If the latter, you will need a very convincing rationale to show why you can garner enough business to meet your financial objectives, which are discussed in the next section.]

F. MARKETING PLAN.

[Discuss here your marketing plan or strategy. This will include identifying the market segment you are seeking to reach, and the various means through which you intend to reach it, such as door-to-door sales, retail sales, direct mail, media advertising, selling through sales reps, jobbers, Amway-type multi-level distributorships, or whatever else you plan to do. Mention also the degree of market penetration and market share you expect to achieve, year-by-year, for the period for which the business plan is making projections (say 3 to 5 years).]

G. SALES STRATEGY AND TACTICS.

[Discuss in this segment how you plan to go about creating an awareness of the product among its ultimate consumers, through advertising, publicity or otherwise, even though most of your sales may be made to middlemen such as wholesalers or retailers. Cover all methods you will employ, such as telemarketing, circulars, print or electronic media advertising, direct mail, catalogs, or other means. Here it will be useful to include photocopies of dummy ads, brochures or other promotional materials that you may have already prepared, if you feel they will be effective in selling your business plan].

H. ORGANIZATIONAL PLAN.

[Here it is important to spell out in a convincing way your plans for structuring the organization, including a description of the key positions and the people who you have lined up to fill them with their (hopefully impressive) qualifications. Include in this section an operational plan, describing in detail the type, and, if known, location of facilities that will be required, and equipment that must be obtained. Also discuss what portions of any production work will be done by outside subcontractors, and what parts will actually be done by your people. For the 3 or 4 key people in the company (including each top person in the sales, finance and technical departments), include their resumes at this point, or place them in an Appendix at the end of the business plan, but refer to them here.]

I. FINANCIAL AND TECHNICAL DATA.

[Here is where you include detailed pro-forma financial statements and other important data in support of the conclusions you have set forth in other parts of this business plan. These should include most or all of the following:]

1. Financial Projections:

(a) Profit and Loss Projections.

[These should be on a monthly basis for the first year or two, and quarterly for subsequent years, in most cases.]

(b) Pro-Forma Balance Sheets.

[These should show your projected ending financial picture for each of the periods covered by the P & Ls.]

(c) Cash Flow Projection.

[Show monthly or quarterly and CUMULATIVE pro-forma cash flows, which should tie into the P & L and balance sheets for each period covered.]

(d) Break-Even Analysis.

[In chart form or otherwise, show the level of sales you will need each year in order to break even for that period.]

(e) Acquisition Schedule for Fixed Assets.

2. Other Supporting Data:

- Technical Drawings of Product.

- Detailed Description of Services to be Offered.

[Delete one of the above lines, unless both apply.]

- Pricing Schedule.

[Detailed list of prices for products or services to be offered, in their different configurations.]

- Plant Layout.

[Include floorplans or layout of a proposed manufacturing plant, including a manufacturing flow-chart and costing estimates for producing the product, broken down into cost accounting detail.]

- Tooling Required for Production.

[Describe here all tooling that will be required, and the estimated costs thereof.

- Market Survey Data.

J. SUMMARY AND CONCLUSIONS.

[This is where you make your final pitch, so make it convincing. Tell what your total capital requirements are and how much of a safety margin that will provide. Describe who will put up what debt and equity capital to get the business off the ground, and when each infusion of capital will be required. This will tell the prospective investors how much of an ownership interest they will be getting for x amount of money. Reiterate the amount of profits you expect the business to make, when you will make it, and how much of your own money and property you are putting into the venture, as evidence of your commitment. Most outside investors are likely to be leery of investing unless it is clear that you have put your own financial neck on the line, so there's no chance of you simply "losing interest" and walking away to do something else after awhile.]

MARKETING FEASIBILITY STUDY WORKSHEET AND CHECKLIST

FOR: ORIENTATION

YOUR PRODUCT OR SERVICE:

1. Describe briefly the nature of the product or service you plan to offer.

2. Most products or services have a life cycle, beginning with very rapid growth in the introductory stage, which slows down in the maturity stage, flattens out in the saturation stage, and finally begins shrinking in the declining stage. Which stage of its market cycle do you believe your product or service is in?

[Delete this line and those below that do not apply:]

- Introductory (high growth)
- Maturity (slower growth)
- Saturation (little or no growth)
- Declining (negative growth in demand)

3. If you believe your product or service is in one of the earlier, faster growing stages of its life cycle, what edge do you feel your product or service will have over similar ones that may be introduced by new competitors who may come into the field?

4. If you are entering at a fairly late stage of the product marketing cycle, why do you believe that you will succeed in taking away others' market share with your product)?

- (a) How is your product differentiated from what is already on the market (in terms of quality and price)?

- (b) Is there good reason to believe that your customers will recognize the difference, and if so, why?

- (c) What is different about your marketing strategy or distribution strategy that will enable your product or service to succeed in a market where there is very little, if any, growth?

YOUR CUSTOMERS:

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5. Not everyone is a potential customer--certain age groups, income levels, geographic areas, ethnic groups and educational levels will more likely be your customers. You need to focus on who will need your product and be most likely to buy it, and then where to locate your business or how to structure your marketing approach so as to reach those segments of the market that you are most interested in reaching. Spell out below, as clearly as you can, who your customers are most likely to be:

- (a) Geographic Area. The particular area from which I will be able to draw most of my customers is:

In addition, I should draw a significant number of customers from the following area or areas:

My plan or strategy for reaching potential customers in the above areas can be summarized as follows:

- (b) Age or Sex Group. The chief market for my product in terms of age and sex groups should be among persons in the following age and sex groups (describe):

- (c) Income Level. In terms of income groups, my particular product should appeal primarily to people in the following income levels:

[Delete this line and those below that do not apply]

---Under \$15,000 a year household income

---\$15,000 - \$25,000 a year

---\$25,000 - \$35,000 a year

- \$35,000 - \$50,000 a year
- \$50,000 - \$75,000 a year
- \$75,000 - \$100,000 a year
- Over \$100,00 a year

(d) Social, Cultural, Ethnic Factors. My product seems likely to be more in demand by certain social, cultural and ethnic groups than others. The groups that are most likely to be customers, if any, are:

The groups that are probably the least likely to be customers are the following:

YOUR COMPETITION:

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Even if you have researched SALES MANAGEMENT MAGAZINE's annual survey of buying power, researched Census Tract data at our local library, consulted the local Planning Commission and the Chamber of Commerce for local economic data, read Chapter 1 of the "STARTING & OPERATING A BUSINESS" book for your state --and generally, have done a great job of pinpointing and studying your market segment--the job is not done until you have considered your competition.

6. My main competitors in my market area are:

Name of firm: (list)

- (a) _____
- (b) _____
- (c) _____
- (d) _____
- (e) _____

7. Based on my market research of statistical data (such as SALES MANAGEMENT, PREDICASTS, etc.), the amount of buying power per business represented in my market area now is:

\$_____

If I can generate that amount of sales, will it be enough for me to operate successfully?

8. Five reasons why customers would buy from me rather than my competitors are:

- (a) _____
- (b) _____
- (c) _____
- (d) _____
- (e) _____

9. Five weaknesses my business will have in comparison to my competitors are the following:

- (a) _____
- (b) _____
- (c) _____
- (d) _____
- (e) _____

10. In order to overcome these weaknesses, I will:

MAXIMIZING YOUR CASH FLOW

Money is still the ultimate labor-saving device, and cash flow is the lifeblood of any business organization. Yet all too many small business operators are so concerned with other matters that they fail to pay proper attention to managing their cash resources properly.

Good cash management can make a significant contribution to the competitiveness and profitability of your business. Poor cash management is one of the main causes of business failures, particularly among smaller firms. A cash shortage due to poor planning can set off a chain of disastrous consequences, even in a profitable business.

Cash flow management has two aspects--projecting future cash flow and controlling and maximizing the cash available from operations at all times.

- (a) **PROJECTING CASH FLOW.** Projecting your business's near-term and long-term cash needs is a very crucial function. The purpose of making accurate cash flow projections frequently is to bring to your attention any point in the future where you may incur a cash shortage or deficit so that you can take steps in advance to prevent that occurrence, such as raising new capital, borrowing money, cutting prices to liquidate some inventory, cutting back on a planned expansion, etc. You may want to consult your accountant for assistance in setting up worksheets or computer spreadsheets to do regular projections. Your CPA may also have (or be able to recommend) computer programs for doing cash flow projections.
- (b) **MAXIMIZING YOUR BUSINESS'S CASH FLOW.** The following are a number of effective methods of maximizing cash flows for your business:
- Bill your customers promptly. The later they receive a bill, the later you will collect for a particular sale, in general;
 - If you know that certain large customers must receive bills by certain days of the month in order for you to get paid that month, try to bill them before those deadlines, if possible;
 - Deposit your cash receipts in the bank daily, if possible;
 - Keep close tabs on credit customers. Send them past due notices as soon as payments become overdue;
 - If you can do so without hurting business, add late charges to overdue accounts;
 - Never pay bills until just before they become due, unless there is a worthwhile discount for quick payment;

- Try to keep inventories as lean as possible. Even if you occasionally lose a small sale because you are temporarily out of an item, you should be far ahead of the game by substantially reducing the amount of cash you have tied up in inventory;
- Look for items in your inventory that are moving slowly or not at all. Consider slashing the price on those articles to convert them to cash and also to reduce the cost of storing them or taking up valuable shelf space;
- Consider leasing equipment items instead of buying;
- Be sure that you are not paying more on your estimated income taxes than you have to. You may qualify under certain exceptions that will allow you to delay paying much of your tax for the year until the tax return is due, without incurring interest or late payment penalties. If you realize that you have already overpaid corporate estimated income tax for the year, there is a procedure for obtaining a refund, by filing IRS Form 4466, prior to the time when you can file a return;

If your business has "net operating loss" for income tax purposes that can be carried back to prior years or a carryback of tax credits, a procedure exists for filing a claim for a quick refund of the prior years' taxes. Individuals file a Form 1045 while a "quickie" corporate carryback claim is filed on Form 1139. File either as early as you can, since the IRS does not pay interest on these refunds;

TO APPLY FOR A SMALL BUSINESS ADMINISTRATION LOAN

1. Prepare a 1 or 2 page description of your business. Describe your product/service, your market, and your competition. Include at least a paragraph describing the expected benefits of the loan.
2. Describe the business education, experience, and management capabilities of the business owner(s) and any other key managers.
3. Complete a personal financial statement for all owners of 20% or more of the business. (This form can be obtained from any bank).
4. Prepare a list of the proposed uses of the loan proceeds.

EXISTING BUSINESSES ALSO INCLUDE:

5. Profit and Loss (Earnings or Income) Statements and Balance Sheets for the last THREE years. If not available then use business tax returns. Financial statements should be current (no older than ninety days.)
6. A list of all existing business debts. For all loans show original amount of each loan, current balance of each loan, monthly payment on each loan, each maturity date and what collateral is pledged to each loan.

START-UPS SHOULD ALSO INCLUDE:

7. A line-item list of how much is needed to start the business (including the borrowed funds).
8. A list of all sources of start-up funds (including any borrowed funds).
9. A projected Profit and Loss statement for the first year of operation.

WHEN YOU HAVE COMPLETED THIS INFORMATION:

10. If you would like to have your package reviewed by the SBTDC, contact us for an appointment.
11. Set up an appointment with your banker (if you have a choice, apply at the commercial loan department of your bank). Take the information you have put together with you and ask the banker to grant a regular business loan.

12. If your bank should turn you down, ask the bank to make the loan under the SBA's 7(a) Guaranty Loan Program. If the bank is not familiar with this program, have them contact the SBA's Charlotte office at (704) 371-6566 to discuss your application with an SBA loan officer. In most cases of SBA loans, the SBA will deal directly with your bank.
13. If a guaranty is not available, you may be eligible for a Direct Loan if you are a Disabled Veteran, Handicapped, or live in a high unemployment area.

Do's And Don'ts When Applying For A Loan

DO'S

1. Do make a professional presentation: make an appointment, dress in business attire, have your written materials well organized and ready to present to the lender. Remember, obtaining a loan is a "selling job."
2. Do give the lender the most accurate picture possible, the good and the bad. The lender will appreciate our honesty. You will be better off presenting the risks of your business rather than letting the lender discover them.
3. Do present the loan amount and terms you calculated to be the most favorable, but be flexible enough to consider the lender's changes and suggestions. You may be able to negotiate interest rates with the lender.
4. Do have the lender explain the loan approval process. Ask for the date when your loan application will be acted upon.

DON'TS

1. Don't become impatient. Sometimes loan applications must be sent outside the local office for approval. (You should have found this out in 4. above.)
2. Don't spend the loan proceeds before you have them.
3. Don't be surprised if the lender wants to meet you at your place of business. Remember, it is the lender's job to get to know as much about your business as possible.
4. Don't be intimidated. Ask tough questions. Make sure you get all the information you need and that you completely understand the loan application process before you leave the meeting.

EVERYTHING
THE SMALL BUSINESS OWNER
EVER WANTED TO KNOW ABOUT
TAXES, LICENSE AND
OTHER RELEVANT INFORMATION

Each business has its own individual characteristics and consequently, the tax, license and regulatory requirements vary from business to business. The following list provides you with information and phone numbers for many of the city, state and federal agencies you may need to contact prior to starting your business.

I. TAX INFORMATION

A. *Income Taxes*

Every business entity is responsible for federal and state income taxes. If your business is a sole proprietorship, partnership, or S corporation, pre-tax income is taxed by reporting it on your individual return.

If your business is a regular corporation, it will be subject to corporate income taxes. Different reporting forms are required for different types of organizations.

All federal tax forms may be obtained from the Internal Revenue Service below:

320 Federal Place
Greensboro, NC 27401
800-829-1040 Tax Information/Assistance/Tax Forms
901-365-5970 Employment ID#

IRS Numbers

Forms & Publications	800-829-3676
Questions	800-829-1040
Tele-Tax	800-829-4477
Memphis Practitioner Hotline	901-365-5970
Greensboro Practitioner Hotline	919-333-5545

Call and ask for a "Getting Started" package for the particular type of organization of your business. You will receive an SS-4 which you should file to obtain a federal identification number.

State tax forms and requirements may be obtained by calling the NC Department of Revenue at 919-733-3166. You can obtain your state identification number by calling 919-733-4626. A state identification number is required only if employees are to be hired. Otherwise, send quarterly payment with tax form NC-40. Note that filing estimated federal and state income taxes during the taxable year may prevent penalty situations.

B. Payroll Taxes

1. Employee Taxes

There are several types of payroll taxes. You, as an employer, must withhold taxes on behalf of your employees. These taxes are collected by you and are employee contributions. They include the following:

- * Federal Income Tax
- * State Income Tax
- * Social Security (FICA) Tax - Employee Portion

Employees must complete forms W-4 and NC W-4 before you can determine the amount to withhold for federal and state income taxes from their salaries. Social security is determined by a legislated percentage and may be obtained through the Internal Revenue Service publications.

2. Employer Taxes

The second type of payroll taxes involve your expense as an employer. These are taxes that you, the employer, pay and include the following:

- * Social Security (FIC) Tax - Employer Portion
- * Federal Unemployment Tax (FUTA)
- * State Unemployment Tax (SUTA)

The IRS "Getting Started" package will include information on submitting your portion of social security and federal unemployment tax.

Each new business must contact the Employment Security Commission for information on unemployment taxes at the address below:

Employment Security Commission of NC
P O Box 26504
Raleigh, NC 27611
919-733-7395

3. Filing

Employee portions of the federal and state income taxes, and the social security tax, must be remitted along with the employer portion of the federal and state taxing authorities, following the schedules provided by the agencies. You must also complete quarterly returns for submitting payroll information to the federal and state agencies. An explanation of these reports should be included in information you receive from the IRS, the NC Department of Revenue, and the Employment Security Commission.

C. Sales and Use Tax, Retail Licenses, Wholesale Licenses

All retail operators must collect sales tax. To find out what to remit and how to avoid tax on wholesale purchase contact:

North Carolina Department of Revenue
Sales Tax Division
P. O. Box 25000
Raleigh, NC 27640
919-733-3661

Wholesalers: If your business is that of distribution and you do not sell to the end-user or consumer, you should obtain a wholesale license.

D. Other State Taxes

State Department of Revenue
2 South Salisbury Street
Raleigh, NC 27602

Amusement Tax	919-733-3673
Excise Tax:	
Cigarettes	919-733-3651
Soft Drinks	919-733-7758
Franchise Tax:	919-733-7758
Installment Paper	
Dealer Tax:	919-733-7548
Intangibles Tax:	919-733-4147
Taxpayer Assistance:	919-733-3991

II. LICENSES AND PERMITS

A. City Privilege License

All for-profit businesses located within the City Limits must have a privilege license before beginning operations. In most Triangle cities, your zoning and other related requirements must be approved before you can obtain the license. In **Raleigh**, go to the Office of Fees and Licenses, Room 118, 222 W. Hargett Street, or call 919-890-3200. In **Durham** call 919-560-6801 or go to 235 the Village, Corner of Holloway Street and Miami Blvd. In **Chapel Hill** call 919-968-2759 or go to the Municipal Building, 306 N. Columbia Street. **Cary** business owners should call 919-460-4952 or go to Town Hall 316 N. Academy Street.

B. State Privilege License

Some businesses operating in North Carolina need to have a state privilege license to operate. You should call the State Licensing Office at 919-807-2166 to check if you need one.

C. Special Licenses and Permits

In certain instances, such as contractors' licenses and bonding, day care certificates of competency, etc., you will need to obtain specific industry licenses and permits. The Business License Information at 919-733-0641 or 800-228-8443 should be able to help you in this area, or refer to the numbers listed below:

Alcoholic Beverage License	919-733-3641
Alcoholic Beverage Permit	919-779-0700
Rest Home License	919-733-2855
Architecture License	919-733-9544
Auctioneer License	919-733-2182
Barber Examiners License	919-733-3650
Cosmetic Arts License	919-790-8460
Electrical Contractors License	919-733-9042
General Contractors License	919-571-4183
Mortuary Science License	919-733-9380
Plumbing & Heating Contractors	919-733-9350
Real Estate	919-733-9580
Nursing Home or Home Health Facility License	919-733-2342
Child Day Care License	919-733-4801

III. ZONING AND SIGNS

Zoning: Be sure your location is zoned correctly for your type of proposed business. To get this information in **Wake County**, go first to the Real Estate Sections of the County Tax Office located on the 11th floor of the County Court House. Bring the address of your proposed location. The "self-help" computers in that office will provide the property's tax map and parcel number. Take this number and make an appointment with the Zoning Planner at the Zoning Ordinance and Policy Office located on the 4th floor of the Municipal Building, 222 W. Hargett Street, 919-890-3125. The Zoning Planner will be able to tell you whether the location is properly zoned for your business, as well as the areas where you might be able to locate if it is not. For zoning information in **Durham**, go to the Zoning Office, 212 Corcora Street, or call 919-560-4137; in **Cary**, go to the Town Hall, 316 Academy Street, or call 919-968-2730, and in **Apex**, call 919-362-4191.

Signs: Due to city ordinances, you will need special permission to put up signs within the City Limits. In general, the total amount of signage allowed is 2 square feet of sign per linear foot of building frontage. The maximum amount of sign area allowed for a multi-store building is 200 square feet, and the maximum amount of sign area allowed for a single-store building is 300 square feet. You can find out about the specific restrictions and allowances that apply to the particular type of sign you would like at the **City of Raleigh Zoning Enforcement Office** located in the Municipal Building, 222 W. Hargett Street, 4th Floor. The phone number is 919-890-3455. Make sure that you contact the Zoning Office before starting any negotiations with a sign maker, or you may end up paying a great deal of money for a sign that you cannot use. For information on sign ordinances in Durham call 919-560-4137, in Cary call 919-460-4044, and in Chapel Hill call 919-968-2730.

IV. LEGAL STRUCTURE OF THE COMPANY

- A. *Incorporating a Business*: Corporations Division
North Carolina Secretary of State
300 N. Salisbury Street
Raleigh, NC 27611/919-733-4201

Call and request the booklet "NC Business Corporation Guidelines" which will explain how to incorporate your business in North Carolina.

- B. *Assumed Name Act*

If you decide that your company will be a sole proprietorship or partnership, and you wish to use a name other than your own name, you must perform a name search at the County Register of Deeds to see if the name of your company is already being used. In **Wake County**, you must also register the company name at the Register of Deeds, 919-856-5460, in **Durham** 919-560-0480 or **Chapel Hill** 919-967-9251.

V. INSURANCE

- A. **Insurance**

There are four types of insurance that are generally considered essential for small businesses. These are fire, liability, auto and workmen's compensation. Fire insurance will compensate you for the loss of and damage to your business property by fire. Liability insurance will help protect you against suits for physical damages done to someone on your property and for liabilities arising from the use of the products or services your company sells. In some cases, both fire and liability insurance may be required rather than optional, so check with your insurance agent to be sure. Some type of auto insurance, either private or

business, is required by law for any vehicle used for business purposes. Before buying any insurance, consider the risks that should be covered, compare costs from the different companies, and get professional advice from an insurance agent.

B. Workmen's Compensation

Your Insurance Agent or Workmen's Compensation
430 N. Salisbury Street
Raleigh, NC 27611
919-733-5020

For North Carolina, Workmen's Compensation is required for businesses employing more than three employees. Workman's Compensation is a form of insurance for employees. Due to legal liability of job-related accidents, Workmen's Compensation is strongly recommended for businesses with less than the minimum employee requirements.

VI. OTHER IMPORTANT PHONE NUMBERS

Assistance

Small Business Administration (SBA Charlotte)	704-344-6563 1-800-827-5722
Minority Business Development Center	919-833-6122
Small Business Center (Durham Tech)	919-598-9449
Small Business Center (Wake Tech)	919-772-0551
NC Technological Development Authority	919-990-8558
CEDCO (Loan Assistance)	919-832-4524
Lawyer Referral Service	919-828-1054 1-800-662-7660
Raleigh Business & Technology Center	919-836-8619

Business Organizations

Cary Chamber of Commerce	919-467-1016
Raleigh Chamber of Commerce	919-664-7000
Durham Chamber of Commerce	919-682-2133
Smithfield Chamber of Commerce	919-934-9166
Council for Entrepreneurial Development	919-544-4296

Demographics

NC Transportation Department of Highways	919-733-9770
NC State Data Center	919-733-3270